

To: Michigan House Judiciary Committee

Re: House Bill 5189 of 2017

From: Rick Thompson, MICBD Group et al

Date: November 7, 2017

SUPPLEMENTARY TESTIMONY

Committee Members:

I appreciated the opportunity to address the Committee one week ago. After reviewing the video there were several points of conversation which need further examination. It is important to note that the title and concept of **'economies of scale'** is a lobbyist's phrase and is not discussed by cannabis businesspersons outside the Capitol Loop or around the state.

1. Economies of Scale is a false argument

In my role as a journalist, a small businessman and a Board member for Michigan's NORML chapter I have visited many distribution centers across the state. Currently there is a thriving medical marijuana distribution market whereby hundreds of dispensaries (provisioning centers) are supplied by local growers who are permitted by the state to cultivate up to 72 plants on behalf of themselves and five patients. Production on that level is what feeds the state's current (and very successful) distribution system. To suggest that cannabis can only be grown successfully or affordably in gardens of 3,000 plants or more is a demonstration of deceptive reasoning and is a convenient fantasy for those who represent the interests of corporate entities.

2. License stacking would create vastly powerful regional power brokers

Cannabis grown in Ann Arbor or Lansing will have a hard time finding its way to the Upper Peninsula and the corners of the state. Why? Transportation costs. The MMFLA does not allow transfer of cannabis from one transporter to another, and therefore whatever truck the cannabis is loaded on, that is the truck which delivers the medicine to the retail outlets. Paying for a truck, two drivers (mandated by law) and all the expense of the drive from Detroit to Traverse City, Marquette or Iron Mountain will add a huge additional cost to the cannabis and force retailers to price it in a less competitive way (or not competitive at all). It is more reasonable to expect that cannabis markets will be supplied by local sources with smaller transportation costs. **Allowing one company to cultivate 9,000 cannabis plants intended for distribution will dominate the cannabis market in whatever region the production facility is located in and snuff out the 500- and 1,000-plant grow operations.** Statewide distribution of a branded cannabis product is best accomplished when corporations are required to maintain multiple locations around Michigan, ensuring a supply of medicinal cannabis which reaches all corners of our oddly-shaped state.

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3. License stacking is a game only the wealthy can play in

If the legislature fails to pass HB 5189 and the stacking of Class C licenses under the MMFLA is allowed, it will become the exclusive domain of the already-wealthy elite from other states. One of the ways in which other governments have screened out potential participants in state medical and recreational programs is by setting the barrier to entry as high as possible, and the favored way to accomplish this is by setting very high capitalization requirements. Michigan has followed suit; the revelation of the capitalization requirement by LARA was poorly received and caused great distrust of the MMFLA administration. Should license stacking remain, here is a chart of the capitalization requirement for various businesses in the state:

Tobacco retail store	\$25,000.00 capitalization requirement
Alcohol retail store	\$50,000.00
Secure Transporter license	\$200,000.00
Cannabis Testing lab license	\$200,000.00
Cannabis retail distribution	\$300,000.00
Class A cannabis cultivation license	\$150,000.00
Class B cannabis cultivation license	\$300,000.00
Class C cannabis cultivation license	\$500,000.00
Motor City Casino	\$1,000,000.00
Greektown Casino	\$1,000,000.00
MGM Grand casino	\$1,000,000.00
Class C stacked license, two licenses	\$1,000,000.00 (up to 3,000 cannabis plants)
Class C stacked license, three licenses	\$1,500,000.00 (up to 4,500 cannabis plants)
Class C stacked license, four licenses	\$2,000,000.00 (up to 6,000 cannabis plants)
Class C stacked license, five licenses	\$2,500,000.00 (up to 7,500 cannabis plants)
Class C stacked license, six licenses	\$3,000,000.00 (up to 9,000 cannabis plants)
Class C stacked license, seven licenses	\$3,500,000.00 (up to 10,500 cannabis plants)

A single stacked license scenario whereby a single cultivator has the right to grow 10,000 plants would require a capitalization level that exceeds all three of Michigan's major gambling casinos combined. Think of the incredibly small number of corporations which qualified to open a casino in Michigan. License stacking is a program which is not accessible to the vast majority of Michiganders- in fact, only a thin number of already-powerful wealthy corporations and elite families would be able to qualify. Then, of course, there are the multiple out-of-state corporate interests whose multi-client, in-state lobbying firms are going to speak to you today.

4. Economies of scale is a self-defeating argument

Michigan law allows for cultivation gardens of 500, 1000 and 1,500 plant levels. The costs associated with producing cannabis for distribution at these plant levels creates a rough equivalence of cost-per-plant throughout each of the three license types, which allows them to each produce competitively-priced cannabis products. The main argument to allow stacking is that cannabis can be produced more economically by aggregating production under one roof or on one plot of land. If this holds true, **allowing stacking of licenses will spell the doom of the 500 and 1000-plant gardens** because, according to license stacking advocates, the cost savings to the corporate entity is dramatic- as is the advantage that stacked garden's product has in the marketplace. If we allow license sacking then we have essentially eliminated or severely minimized the potential for success of the 500 and 1,000-plant gardens. The legislature assigned different levels of cultivation with the understanding that they could each contribute to the state's economy and create jobs. If license stacking is allowed and these smaller gardens are less financially stable, some of those businesses will certainly fail, causing LARA administrators to issue fewer licenses at this level- and that is not positive for Michigan's small business community and the creation of jobs.

5. A corporation who spreads their production out over multiple sites employs more people

This is self-explanatory.

6. There is no guarantee that the cost savings will translate into a lower price to the consumer

This has proved to be true across the board for all consumer goods in a free market economy. If we assume that cannabis grown at a 500 plant garden costs \$5 per gram to produce and is retailed for \$10 per gram (or whatever the market price is), we can assume that the cannabis grown at a 1000 plant facility costs \$4.75 to produce but is still sold at retail for standard market price. Cannabis grown in a 1,500 plant garden may be produced at \$4.50 per gram, and cannabis produced in a stacked facility may only cost \$3 per gram to produce- but it will still be retailed at current market value, \$10 per gram per our example. The giant corporation which produced the cannabis pockets the \$2 per gram savings, **because cannabis is sold at market value- not the value of the production of the product.** Stacking of Class C licenses does not guarantee a cheaper medical marijuana product to the end consumer but it does guarantee a better profit model for the corporate entity which secures those stacked licenses.

Again I appreciate the effort of the bill sponsor and co-sponsors. Please feel free to contact me to assist the members of the House in any way with cannabis law reform issues in the future.

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